Transport for London

AUDIT COMMITTEE – Open Session

Meeting to be held on Thursday 2 November at 10:00am
in the 14th floor Boardroom, Windsor House

AGENDA

1. Apologies for absence

2. Minutes of previous meeting

   2.1 Matters Arising and Outstanding Actions Monitoring Report

   2.1.1 Progress with traffic modelling   Mike McCrory

3. Strategic Risk Management Progress Report   JB

4. Internal Audit Matters: MMH

   4.1   Report on management actions

   4.2   Final Audit reports for Q1&2 2006/07

   4.3   Internal Audit Productivity & Resources Report

            Q1&2 2006/07

   4.4   FOI requests for internal audit reports

5. External audit matters

   5.1   Annual Audit & Inspection Letter 31/03/06 – (Oral)   Audit Commission/KPMG

   5.2   External audit plan 31/03/07 TTL and subsidiaries   KPMG

   5.3   Non-audit fees for 6 months ended 30/09/06   KPMG

   5.4   Data Quality Review   KPMG

6. Update of Audit Commission Issues   SC

7. Update on Critical Accounting Policies   SC

8. Any Other Business

At the close of this meeting the Audit Committee members will have a Private Session with the Director of Internal Audit

The next meeting of the Audit Committee will be held 24 January 2007 at 1000 hours

Transport for London

MINUTES OF THE AUDIT COMMITTEE MEETING held at 09.00 on Thursday 15th June 2006 in the Boardroom, Windsor House

Present:

Members:	John Ormerod	Chair
	Stephen Glaister	
	Patrick O'Keeffe	

Advisors:	Murziline Parchment	

In Attendance:

	Sarah Bradley	Head of Group Financial Accounting
	John Burton	Head of Risk Management
	Naomi Connell	Director of Finance LUL
	Stephen Critchley	Chief Finance Officer
	Mary Hardy	Director of Internal Audit
	Ellen Howard	Public Law Team Manager
	Gareth John	Director of Legal & Compliance
	Peter McGuirk	Interim Director of Governance and Assurance
	Alex Robertson	Head of Strategic Communications
	Valerie Todd	Interim Managing Director, Group Services
	Richard Webster	Director of Finance, ST

External Auditors:	Andrew Marshall	KPMG
	June Taylor	KPMG
	Greg McIntosh	KPMG

Secretary:	James Varley	

24/06/06 Apologies for Absence

Apologies for absence were received from Sir Mike Hodgkinson, Dave Wetzel, Bryan Heiser, Jeff Pipe, David Hughes, Ben Plowden and Jay Walder

The Committee welcomed Stephen Glaister to his first meeting as a Member following his appointment by the Board on 24 May.

25/06/06   **Minutes of the Last Meeting**

The minutes of the Audit Committee Meeting held on 16th March 2006 were agreed, so far as the meeting being quorate and ratified so far as the meeting had been inquorate. The minutes were signed as a true record.

26/06/06   **Matters Arising and Outstanding Actions**

There were no Matters Arising from the minutes.

Stephen Critchley updated the Committee on the HR and Equalities policies; the current draft had been sent to Patrick O'Keeffe who would be contacting Martin Boots, Head of Group Employee Relations and Policy. Stephen Critchley also confirmed that corporate standards were not yet in place for replying to complaints but a process had been drawn up and was under internal consultation.

All other Outstanding Items were covered in the agenda.

It was agreed that the Audit Committee training session, originally scheduled for 26 September would be deferred until new Members had been appointed.

Action: Mary Hardy

The Outstanding Actions list was **NOTED**.

27/06/06   **Progress with Traffic Modelling**

In response to a question about the timing of the workstreams, Mary Hardy agreed to speak to Mike McCrory and provide a report on the expected timetable.

Action: Mary Hardy

The Committee **NOTED** the report.

28/06/06   **Strategic Risk Management Progress Report**

John Burton highlighted the good progress made on Integrated Software and also his recent involvement with the London Risk Management Group. This group would give access to a tool kit for risk assessments of partnership projects.

The Chair thanked John Burton for his continued progress.

The Committee **NOTED** the paper.

29/06/06   **Report on Management Actions**

Mary Hardy updated the Members on the overdue Best Value items and

explained that the Director of Human Resources believed TfL was making good progress towards the requirement of being classified as an "Exemplary Employer". Ellen Howard assured Members that TfL was actively considering and assessing the effects and obligations of the Age Directive.

The Chair commended TfL on the reduction of overdue actions.

The Committee **NOTED** the report on Management Actions, which showed Management Actions outstanding for various periods up to 121 days+.

30/06/06   Final Audit Reports for Q4 2005/06

In response to questions from the Chair, Mary Hardy explained that the Recruitment Audit was not yet closed and that the approach used was under review. An update would be circulated to the Committee.

Action: Mary Hardy

The Chair queried whether sufficient work was being done on basic financial controls and Mary Hardy committed to keeping this under review.

Action: Mary Hardy

The Committee **NOTED** the report.

31/06/06   Proposed Corporate Governance Disclosures

A Member asked the Mary Hardy how an opinion on "adequacy of the Code" could be given. She explained that no guidance in this area had been given however the Code was considered every year to ensure all of TfL's activities were covered. The Chair reported that the review of Corporate Governance previously initiated under Audit Committee oversight had been curtailed.

The Committee **NOTED** the report and agreed to defer approval until the completion of all the planned audit work.

32/06/06   General Counsel's Annual Report

The Committee **NOTED** the report.

33/06/06   Director of Internal Audit's Opinion on the Statement of Assurance

Members were encouraged by work done in the area of Internal Controls.

The Committee **NOTED** the paper.

34/06/06   **Independence and Objectivity**

The Committee **NOTED** the letter from the Auditors.

35/06/06   **Non Audit Fees**

The Committee **NOTED** the letter and schedule of fees and charges from the Auditors.

36/06/06   **Update Report on Whistle Blowing**

The Chair stressed the need for effective communication of the Whistle Blowing procedures to staff to ensure it was used effectively.

The Committee **NOTED** the paper.

37/06/06   **Audit Commission Update**

Stephen Critchley explained to the Members that TfL was actively involved in a dialogue with the Audit Commission in relation to the applicability of the Comprehensive Performance Assessment methodologies used to review the organisation.

Mary Hardy explained to the Members that Accounting and Auditing Regulations required an annual review of the effectiveness of Internal Audit although guidance on how this task would be carried out had not yet been issued. The Chair suggested that in accordance with the Institute of Internal Auditors guidelines a 3 yearly cycle of review could be introduced with internal reviews in years 1 and 2 and an external review in year 3. KPMG carried out an effectiveness review of internal audit in 2004 so it was suggested that this should be done again in 2007.

The Committee **NOTED** the paper.

38/06/06   **ANY OTHER BUSINESS**

The Members of the Audit Committee met privately with the Chief Financial Officer.

Subsequently, the Members had a meeting with KPMG who confirmed that there no were no restrictions placed on the scope of their work.
There being no other business, the meeting was closed.

Chair:---------------------------------------   Date: ----------------------------------

TRANSPORT FOR LONDON

TfL AUDIT COMMITTEE – OPEN SESSION
ACTION LIST
At JUNE 2006

OUTSTANDING ITEMS FOR FUTURE MEETINGS

Target Date	Description	Action By:	Minute No.	Status/ note:
02/11/06	Project (traffic) Modelling – update on progress	Mary Hardy	02/01/06	**On agenda**
TBA	Revised Internal Audit Approach to Programme and Projects Audits	Mary Hardy	-	
TBA	Group Risk Reporting – resolution of policy decisions - public reporting of risk to be added to the Audit Cttee Agenda.	John Burton	52/10/05	**Ongoing**
TBA	KPMG Report on Use of Resources – a response to the report's findings	Stephen Critchley	04/01/06	

ACTION LIST – actions resulting from current and previous meetings

Target Date	Description	Action By:	Minute No.	Status/ note:
-	HR & Equalities policies - current drafts of these to be sent to Patrick O'Keeffe and to ascertain how long the consultation process is expected to be.	Stephen Critchley	02/01/06	**Ongoing – draft policies with PO'K**
-	IPA Improvement Plan – • key dates to be drawn to the new Commissioner's attention; • ascertain whether there were corporate standards for replying	Stephen Critchley Stephen Critchley	04/01/06	**Process for replying to complaints in internal consultation**

	to correspondence and complaints.			
March 07	<u>Audit Plan</u> – Review IA position on audit of Industrial Relations and Political Imperatives	Mary Hardy	12/03/06	**Ongoing**
02.11.06	<u>Training for Audit Committee members</u> – Defer training session until new Members appointed	Mary Hardy	26/06/06	**Ongoing**
02.11.06	<u>Progress with Traffic Modelling-</u> Report on timetable for process	Mary Hardy	27/06/06	**COMPLETED (Paper on Agenda)**
02.11.06	<u>Final Audit Reports -</u> Review approach used for Recruitment Audit Review level of work done on Audit of basic financial controls	Mary Hardy Mary Hardy	30/06/06	**On January agenda** **To be included in Audit Planning for 2007/2008**

Transport and Highway Modelling – Briefing note

Background

1. TfL are developing a programme of traffic infrastructure improvements to support the Mayor's Transport Strategy and the London Plan. However, our recent experience at Public and Planning Inquiries has demonstrated the need for a consistent and robust appraisal of schemes that, as a minimum, comply with the latest guidance from the Department for Transport (DfT). Accordingly, reviews of both demand forecasting and of highways traffic models have been carried out in 2006. This note summarises the current position for the Audit Committee.

2. TfL's models are an essential tool for the planning and delivery of the Investment Plan and for developing and evaluating policies. The model reviews arose from recognition of the importance of the models and questions about the extent to which they are addressing all current requirements. The intention is to identify ways of developing better approaches to modelling that better meet TfL's requirements

3. The available techniques for forecasting demand for travel and highway conditions and their theoretical underpinnings are complicated and cannot be easily or quickly appreciated. The reviews involved consultation with over 30 TfL and GLA staff and additional experts from consultants over a 5 month period. This note presents some of the findings of the review and an update on progress in developing improved models.

The Reviews

4. These are:-
    i) Review and Development of Transport for London's Transport Modelling: **Demand Forecasting** Review by The Denvil Coombe Practice
    ii) **Highway Traffic Model** Scoping Exercise by Hyder Consulting in consultation with The Denvil Coombe Practice

Review Findings – Demand Forecasting

5. The review consisted of an assessment of the nine current travel demand forecasting tools in use by TfL to reveal their strengths and weaknesses. Workshops with GLA and TfL officers and experts were organised around 36 questions about the model/s fitness for purpose and the need and scope for development. Improvements to the models were identified in relation to:-
    i) Resources
    ii) Representation of observed phenomena
    iii) Data
    iv) Wider applicability
    v) Land Use Modelling
    vi) Traffic flows

vii) Congestion Charging

viii) Policy issues

Review Findings – Highway Traffic Modelling

6. This review, which was carried out alongside the demand forecasting review, set out TfL's requirements for highway traffic modelling. Relevant issues include:-

    i)   Modelling congestion

    ii)   Data requirements

Proposed Model Development

7. The reviews found widespread support amongst the GLA/TfL users and associated experts for improved modelling capabilities. The reviews both recommended the following approach.

8. **Format** The review proposes three London-wide models:

    i)   A spatially-detailed travel demand forecasting model to address TfL's transport appraisal needs based on LTS. This should include widespread functionality and able to model congestion charging and parking restraint.

    ii)   A spatially-aggregate travel demand forecasting model (replacing SPAM and SOCCAR) to provide broad brush policy analysis.

    iii) A spatially-detailed land-use/transportation interaction model.

9. The experts, including representatives from consultants working with large network based models, concluded that the demand forecasting model should be spatially-detailed with associated requirements for larger detailed networks and data. This spatially-detailed demand forecasting model would be used to feed the spatially-aggregate transport policy model.

10. **Detail and accuracy** The review findings are that modelling performance of the spatially-detailed models would be improved with networks and data specified at greater detail. More recent and comprehensive survey data are required to calibrate and validate these models. It is not clear from the review that this greater detail will necessarily improve traffic assignment model validation, the validity of the flow/delay relationships within LTS and how variations in demand in response to changes in congestion are modelled.

11. **Highway and Traffic models** A tiered hierarchical suite of models is proposed with supply and demand data passed between the tiers to provide a consistent approach.

12. **Timing resources and feasibility** Taken together the proposals represent a significant upgrade to TfL's modelling with large scale cost and staff resource implications. Timescales for delivery have yet to be established. In some areas such as the proposals for transferring junction operational performance data from local highway models to higher tier models the methodology is novel, yet to be developed and with unknown probability of success.

13. **Organisation** Modelling should have a higher profile with senior management and better communications between departments in view of its importance to the organisation. A Modelling Unit to lead in this area and which reports to a Chief Officer is suggested. TPP have for some time provided the lead for modelling within TfL/GLA and in the absence of decisions concerning a new Modelling Unit this will continue. TPP are to take responsibility for budget and delivery issues for modelling for DRND.

The Next Steps

14. Following the receipt of the review reports TPP are arranging to have a costed programme prepared by January 2007 for implementation from April 2007, subject to agreement on proposals and budgets. This will be steered by a working group including representatives from Surface. The costed programme will seek to address the improvements that have been identified in the reviews, in priority order.

15. The intention is that this proposed programme will provide the basis for engaging with senior management across TfL/ GLA as part of the agreement process.

TRANSPORT FOR LONDON

STAFF SUMMARY

AUDIT COMMITTEE MEETING

SUBJECT: STRATEGIC RISK MANAGEMENT PROGRESS REPORT

MEETING DATE: 02 NOVEMBER 2006

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1.   PURPOSE

The purpose of this paper is to update the Audit Committee on progress made on delivering key elements of the Risk Management Plan since the June Committee.

2.   BACKGROUND

A full Risk Management Plan for 2006/07 was tabled at the June 2006 Committee. The plan was developed from a gap analysis performed against the CIPFA risk management maturity framework. The aim of this exercise was to highlight aspects of the current approach where further development was necessary to take TfL firmly into the area of best practice. The Committee approved the overall plan, which included work on the following headline areas.

- Risk appetite
- Key performance indicators
- Formal process for identifying opportunity
- Board risk review
- Integrating risk and HR processes
- Management and board reporting
- Risk training and awareness

3.   PROGRESS

A key piece of work undertaken as part of the overall Business Planning round was the recent validation of the TfL Strategic Risk Map through a workshop attended by all Chief Officers. During the last three months we have also made significant progress in three of the main headline areas from the Risk Management Plan: management reporting, training, and risk appetite. The highlights are as follows:

Management Reporting

In June 2006 the Commissioner formally agreed to take ownership of all the TfL strategic risks. However, the mitigations for the risks were to be managed by the appropriate Managing Directors across the business as part of their own risk management arrangements. This would ensure appropriate accountability whilst making most efficient use of the management processes already in place.

To support this strategic risk model a new reporting regime has been developed. The key element in this is a quarterly report to the Commissioner focusing on the mitigation status of each of the strategic risks. A basic red, amber, green status measure is applied. The status allocated to each risk is intended to highlight areas where progress on risk mitigation should be improved. The focus is placed upon those areas where planned mitigating actions have been progressed slower than originally planned, or where current mitigating strategy is proving to be ineffective and where inadequate corrective action is being put into place. Factors taken into account when establishing the status are included in the guidance note included as Appendix 1 to this report. Further tailored reports are produced for each of the Managing Directors, summarising the relevant contents of the Commissioner's report.

All of the above was put in place for the Quarter 2 reporting cycle. Work is already in hand to enhance the quality of the report content, for example, by improving the measuring techniques and indicators used to decide upon the statuses applied.

Risk Management Training

Two work packages within the Risk Management Plan relate to the development of general training initiatives. The first is a basic awareness course intended for wide circulation across the workforce. This will cover an initial introduction to risk management and ensure that staff who wish to learn more are given the appropriate leads and contacts. The aim is to develop this element of training as an e-learning option.

The second training package is a more focused piece. This will cover the business manager community – typically managers who should be identifying and managing their own risks as part of their day jobs. In this case the TfL process will be introduced, along with useful tools and techniques for them to apply. The target is to complete the development of both these initiatives during this financial year to enable roll-out during the first quarter of 2007/08.

We are now working with Learning & Development and Communications staff to develop the detailed training content.

We have completed an important initial step in this process – the drafting of a communications strategy for risk management. This identifies stakeholders and matches the required message and delivery mechanisms. In parallel with these initiatives we have been working with staff from Project PYRAMID (a training and development programme for the TfL project management community). Risk management training will be delivered as part of this initiative, but will be integrated into the overall approach outlined above.

Risk Appetite

Agreement on the level of risk that senior management are prepared to bear is often one of the more difficult elements of a risk management framework to implement. We have already had a number of discussions on this area with a range of managers across the business, without being able to formulate an approach acceptable to all parties. However, having tabled this at the last Risk Management Group meeting, a dedicated working group has now been assembled to take risk appetite forward. An extremely fruitful initial meeting has been held and the basis of an approach has been devised for assessing strategic risk appetite

based upon analysis of the nature of the risk impact. Once agreed with Chief Officers, the risk appetite will enable us to introduce a target risk level for each strategic risk.

As an indication of the degree to which the risk management frameworks and processes developed to date are best practice in the field, we have been contacted by a number of organisations seeking to learn from us in developing their own risk management arrangements. Organisations include the BBC and the Greater Manchester Passenger Transport Executive. TfL strategic risk management has also been featured as a case study in the twice-yearly Financial Times Risk supplement.

4. RECOMMENDATIONS

The Committee is asked to NOTE this report.

TfL Risk Management Process

Risk Control Status

Guidance on Status Setting

Green Status Scenarios

The overall risk management arrangements are effective in mitigating the exposure to key business objectives or the delivery of Business Plan elements

Factors that would normally result in this status being applied:

- Fully populated mitigation strategy, required actions and agreed ownership

- Risk mitigation action dates consistently met

- Funding allocated for identified risk contingency

- Risk regularly reviewed

Amber Status Scenarios

The overall risk management arrangements are not fully effective, but the exposure to key business objectives or the delivery of Business Plan elements is not acute

Factors that would normally result in this status being applied:

- Some risk mitigation action dates missed but actions still being genuinely progressed

- Future funding for identified risk contingency in doubt

- Lack of clarity for any aspects of mitigating strategy or ownership (for example, organisational changes)

- Risk review frequency slipping

Red Status Scenarios

The overall risk management arrangements are not effective, to the extent that the risk represents an avoidable exposure to key business objectives or the delivery of Business Plan elements

Factors that would normally result in this status being applied:

- No agreed risk owner

- No mitigating strategy (particularly for internal risks)

- Poor risk review frequency

- Inadequate mitigating strategy (as concluded by peer or independent review such as Internal Audit)

- Funding not available for identified risk contingency

- Risk mitigation action dates consistently missed or key action dates significantly overdue

- Significant external events, deadlines or milestones without corresponding management focus

TRANSPORT FOR LONDON

STAFF SUMMARY

AUDIT COMMITTEE - OPEN SESSION

SUBJECT:	**REPORT ON MANAGEMENT ACTIONS**
MEETING DATE:	**2 NOVEMBER 2006**

1.   PURPOSE

The purpose of this paper is to report to the Audit Committee on those recommendations to management which have not been actioned and are more than 91 days overdue.

2.   BACKGROUND

No management actions remain outstanding over the 91 day period.

A full statistics report is also attached for information.

3.   RECOMMENDATIONS

The Committee is asked to NOTE this report.

Outstanding Actions Statistics

Directorate:	Agency:	1 – 30 days	31 – 60 days	61 – 90 days	91 – 120 days	121 days +
Finance & Planning	Audit Commission	0	0	0	0	0
Finance & Planning	Internal Audit	5	0	0	0	0
Finance & Planning	Best Value	0	0	0	0	0
Finance & Planning	External Audit	0	0	0	0	0
Group Services	Audit Commission	0	0	0	0	0
Group Services	Internal Audit	1	0	0	0	0
London Rail	Internal Audit	0	2	2	0	0
General Counsel	Audit Commission	3	0	0	0	0
General Counsel	Internal Audit	2	0	0	0	0
Surface Transport	Internal Audit	14	8	1	0	0
Surface Transport	Best Value	0	0	0	0	0
Surface Transport	External Audit	0	0	0	0	0
Group Communications	Audit Commission	0	1	0	0	0
Group Communications	Internal Audit	0	0	0	0	0
Group Communications	Best Value	0	0	0	0	0
London Underground	Internal Audit	18	3	2	0	0
Equality and Inclusion	Best Value	0	0	0	0	0

TRANSPORT FOR LONDON

STAFF SUMMARY

AUDIT COMMITTEE - OPEN SESSION

SUBJECT: **FINAL INTERNAL AUDIT REPORTS ISSUED**
-   **FIRST AND SECOND QUARTERS 2006/07**

MEETING DATE: 2 November 2006

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1.   **PURPOSE**

The purpose of this paper is to report to the Audit Committee on the final reports issued in the first and second quarters 2006/07.

2.   **BACKGROUND**

70 final reports were issued in the first two quarters of 2006/07. 13 of these reports were *well controlled* interim reports with no management actions required and so were issued as final reports and the audits immediately closed. The report on 'Handheld & Mobile Computing Security Audit' was not closed due to an outstanding recommendation and the report on 'IT Network Controls and Disaster Recovery' was not closed and both of these are to be reviewed in December. All remaining audits were closed.

3.   **RECOMMENDATIONS**

The Committee is asked to NOTE the contents of this report.

('IF' denotes well controlled interim report, immediately closed)

Report Title	Interim Report Issued	Final Report Issued	Original Objective	Summary of Interim Findings	Final Report Status
Finsbury Park Interchange Project (IA_04_115)	24/06/05	19/04/06	To ascertain whether Finsbury Park Interchange project was being managed in an effective and efficient manner.	Issues including inadequate formal agreement between FPP and TfL and works commencing prior to proper contractual agreement. All management actions satisfactorily addressed. Audit closed	
Transport Planning Projects (IA_04_113)	29/07/05	27/04/06	To ascertain whether new transport projects were defined and commissioned in an effective and efficient manner.	10 actions identified including inadequate stakeholder management planning – all actions satisfactorily addressed. Audit closed	
East London Transit Project (IA_04_114)	21/07/05	27/04/06	To review the readiness of the EL Transit Scheme for implementation by Surface Transport following handover from Major Projects.	Actions identified in the Interim report were all satisfactorily addressed. Audit closed	
Westminster Bridge Project (IA_04_141)	11/08/05	23/05/06	To ascertain whether the Westminster Bridge Project was being managed in an effective and efficient manner	No significant issues and all other actions addressed satisfactorily. Audit closed	
Systems Engineering within LU (IA_04_122)	10/07/05	05/05/06	To review LUL controls for ensuring new systems are developed in accordance with requirements.	Issues identified including lack of high level policy, strategy and business ownership re development and implementation of structure systems integration processes. Actions resolved. Audit closed	

Congestion Charging Western Extension (IA_05_103)	21/10/05	21/06/06	To assess whether the Congestion Charging Western extension Project was being managed in an effective and efficient way.	Minor issue relating to room for improvement in control environment which has been addressed. Audit closed	
LU Operational Accommodation Improvement Programme (IA_05_078)	24/11/05	21/06/06	To ascertain whether the Operational Accommodation Improvement Programme was being managed in an effective and efficient manner	All management actions addressed. Audit closed	
LU District Line Rolling Stock Refurbishment (IA_05_086)	13/12/05	23/06/06	To ascertain whether the District Line Rolling Stock Refurbishment project was being managed in an effective and efficient manner	One minor issue which was resolved on follow-up. Audit closed	
LU Victoria Station Upgrade Project (IA_05_084)	29/11/05	23/06/06	To ascertain whether the Victoria Station Upgrade project was being managed in an effective and efficient manner.	Minor issues satisfactorily addressed. Audit closed	
Risk: 2 **Quantity and/or quality of people**					
HR Learning and Development (IA_04_248)	16/08/05	30/05/06	To assess effectiveness of arrangements in place to deliver TfL's HR Learning & Development strategy.	Issues relating to overall governance arrangements for delivery of the L&D strategy, and impact of key staff leaving. All issues resolved. Audit closed	

Risk: 3 Effective Contract Management					
Peer Review – S&SD PPP Assurance (IA_04_098)	19/04/05	05/05/06	To review effectiveness of the internal controls that were operating within S&SD PPP Assurance	No significant issues identified and all issues requiring management action were resolved. Audit closed	
Tendering of Bus Route Contracts (IA_05_051)	See comments	24/04/06	An independent review of the process used by Surface Transport to evaluate and select successful tender for bus route contracts	No issues identified so audit closed	IF
Assurance on the Power Services Contract Payment System (IA_05_014)	12/10/05	05/05/06	To review payments process for Power PFI including reviewing performance calculations, management of claims and variation to contract.	Mitigation of access claims required reviewing to reduce number of claims made by contractor. Satisfactorily addressed. Audit closed	
Ambience Scoring – Management of MSS Process (BCV) (IA_05_035)	10/11/05	23/05/06	To determine whether management of ambience and the MSS process operate effectively within terms of BCV PPP contract	Minor issues regarding scope to further enhance control environment; all addressed. Audit closed	
Ambience Scoring – Management of MSS Process (JNP) (IA_05_035)	10/11/05	23/05/06	To determine whether management of ambience and the MSS process operate effectively within terms of JNP PPP contract	Minor issues regarding scope to further enhance control environment; all addressed. Audit closed	
Ambience Scoring – Management of MSS Process (S&SD) (IA_05_035)	10/11/05	23/05/06	To determine whether management of ambience and the MSS process operate effectively within terms of S&SD PPP contract	Minor issues regarding scope to further enhance control environment; all addressed. Audit closed	

Ambience Scoring – Management of MSS Process (JNP) (IA_05_035)	10/11/05	23/05/06	To determine whether management of ambience and the MSS process operate effectively within terms of SSL PPP contract	Minor issues regarding scope to further enhance control environment; all addressed. Audit closed	
Procurement and Implementation of Engineering and PM Consultancy Framework (IA_05_249)	22/11/05	30/05/06	To undertake an independent review of fairness of the process followed for shortlisting and evaluation of bidders for the TfL consultancy framework agreements	So significant issues identified. Audit closed	
Energy Management (IA_06_302)	See comment	15/06/06	To assess whether energy management procedures suit the requirements of the business.	'Well controlled', no follow up required.	IF
Risk: 4 **Use and Availability of Funding**					
Theft of IT Equipment 172 Buckingham Palace Road (IA_05_282)	13/02/06	12/06/06	To review overall physical security of 172 BPR.	Audit closed	
Risk: 5 **Organisational model not conducive to effective delivery of the Busienss Plan and Capital Programme**					
Control of Staff Uniforms (IA_05_248)	15/07/05	25/04/06	To review the stock management processes in uniform stores to ensure appropriate controls enabled efficient operation of the stores	Several issues relating to uniforms generally within LU, which were all resolved. Audit closed	
Risk: 6 **IM Systems Implementation**					
Implementation of Open Air Accounts and BACS Controls (IA_04_100)	13/07/05	19/04/06	To undertake a post implementation review of the Open Air Accounts application; review controls used to manage BACS facility; review strategy for implementing BAC IP.	No significant issues identified, but with some management actions required which were satisfactorily addressed. Audit closed	

Risk: 7 **Major Internal Event**					
Desktop Roll Out and Security Audit TCIE and Corporate (IA_04_054)	29/07/05	25/04/06	To consider whether the security controls and processes in place for desktops are consistent with recognised practice and reflect the business risks and needs.	Issues identified regarding the universal TCIE XP desktop building not being configured in line with accepted security practice. The issues were addressed and the audit closed	
Assurance on the Power Services Contract SCADA System (IA_05_197)	22/11/05	15/05/06	To review effectiveness processes for the design, installation and acceptance into service of the SCADA system as required under the Power PFI contract.	Four minor actions required and all addressed satisfactorily. Audit closed	
Handheld & Mobile Computing Security Audit (IA_04_049)	22/06/05	13/06/06	To consider whether security controls and processes in place are consistent with suggested good practice and reflect the business risks and needs. One outstanding recommendation, so follow-up to take place in August 2006	One outstanding recommendation to be followed up in August 2006.	
Risk: 9 **Resilience to major external event**					
Security Audit of Harrow-on-the-Hill Station Group (IA_06_019)	See comment	16/06/06	To ensure overall protective security was commensurate with the identified risks.	'Well controlled', no follow up required.	
Security Audit of Bond Street Station Group (IA_06_008)	See comment	16/06/06	To ensure overall protective security was commensurate with the identified risks.	'Well controlled', no follow up required.	
Security Audit – Baker Street Station Group (IA_05_146)	See comments	21/04/06	To ensure overall protective security was commensurate with identified risks.	No issues so immediately closed.	

Security Audit – Finsbury Park Station Group (IA_05_155)	7/12/05	25/04/06	To ensure overall protective security was commensurate with identified risks.	Audit closed	
Security Audit, Streets Computer Room (IA_05_161)	19/08/05	2/06/06	To ensure overall security was commensurate with the identified risks.	Audit closed	
Security Audit of Victoria Station Group (IA_05_147/F)	20/02/06	06/06/06	To ensure overall security was commensurate with the identified risks	Audit closed	
Security Audit Heathrow Station Group (IA_05_142)	16/02/06	12/06/06	To ensure overall protective security was commensurate with identified risks.	Audit closed	
Risk: 10 **Operational Delivery**					
Congestion Charging Risk Management (IA_05_220)	13/09/05	24/05/06	To assess the effectiveness of risk management processes operated by the Congestion Charging team	No significant issues raised and all actions addressed. Audit closed	
London River Services Healthcheck (IA_05_244)	16/08/05	2/06/06	To review controls operating over the core business processes within LRS to ensure they are appropriate and operating effectively	No significant issues. Audit closed	
Risk: 13 **Revenue Collection**					
VCS Cash Office Controls (IA_05_258)	21/10/05	13/06/06	To assess the control environment surrounding the cash activities within the area, following a theft.	All actions addressed excepting one awaiting outcome of Grant Thornton review of accounts procedures in May 2006. Audit closed	
Fares Policy Section (IA_04_185)	27/05/05	23/05/06	Assess effectiveness of controls over Fares Policy section within Fares & Ticketing in its role of supporting fares setting process.	Two minor issues raised relating to scope to further enhance control environment. Audit closed	

Report Title	Interim Report Issued	Final Report Issued	Original Objective	Summary of Interim Findings	Final Report Status
Risk: 1 *Project Delivery*					
LU Programme Assurance Office & Master Project Database Implementation (IA_04_132)	1/11/05	2/08/06	To review effectiveness of LU Programme Assurance Office and implementation of LU Master Projects Database	Interim report identified several issues including absence of documented and agreed acceptance criteria for MPD. All issues satisfactorily addressed. Audit closed	
DLR Stratford Regional Station Project (IA_05_072)	11/11/05	10/08/06	To ascertain whether the DLR Stratford Regional Station project was being managed effectively	Minor issues relating to scope to further enhance control environment. All addressed. Audit closed	
Thames Gateway Bridge (IA_05_059)	17/02/06	10/08/06	To ascertain whether project risks were being managed effectively and efficiently	Issues included no Project Board or similar governance group. Senior management have implemented actions. Audit closed	
ELLP Organisation and Governance (IA_05_074)	11/01/06	10/08/06	To ascertain whether the organisation and governance had been set up and operating efficiently and effectively	Management of ELLP have implemented all agreed actions and the audit closed	

Greenwich Waterfront Transit Project (IA_05_063)	29/11/05	7/08/06	To review readiness of Phase 1 of project for handover from Major Projects	There was an absence of specific project procedures being used and lack of continuity of project manager and team personnel. Issues addressed and audit closed	
Investment Programme Progress Reporting (IA_05_090)	4/11/05	7/08/06	To review effectiveness of IP Progress Reporting and its further planned development	Issues including lack of high-level documented process for IP reporting. Issues all addressed satisfactorily. Audit closed	
Digital Traffic Enforcement System Project (IA_05_104)	3/10/05	27/06/06	To ascertain whether the Digital Traffic Enforcement System project was being managed in an effective and efficient manner	Issue raised regarding costs included in business case being sufficiently accurate. All actions satisfactorily addressed. Audit closed	
A406 Bounds Green Scheme (ST) (IA_05_100)	22/11/05	07/09/06	To assess the effectiveness of project management processes and controls over the A406 Bounds Green Scheme	All agreed actions from Interim report either in progress or satisfactorily addressed. Audit closed	
Risk: 3 **Effective Contract Management**					
Connect Variations (IA_56_012)	22/11/05	31/07/06	To review processes used to administer Connect contract variations	Times taken to process and implement some variations had been longer than required by the contract. Issues addressed satisfactorily. Audit closed	
Croydon Tramlink Concession Agreement Variations (IA_06_304)	See comment	07/07/06	To review variation process using the Centrale Tram Stop and a sample of other variations	Well controlled so audit immediately closed	IF

LU Advertising Contract (IA_06_326)	See comment	20/07/06	To undertake an independent review of the process to evaluate the two 'Best and Final Offers' and select the successful bidder for the commercial advertising concession.	Well controlled so audit immediately closed	IF
LUL – Flexible Energy Purchase Strategy ((LUL) IA_06_141)	07/06	15/09/06	To provide assurance over the flexible energy purchasing procurement process and the proposed controls to manage the inherent risks.	Control procedures in relation to authorisation of energy purchases were not yet agreed to and documented. All issues satisfactorily addressed. Audit closed	
Risk: 4 **Use and Availability of Funding**					
Group Property Finance (IA_04_293)	27/03/06	2/08/06	To assess effectiveness of controls over financial and management accounting processes.	Second follow-up review found that all actions had been satisfactorily addressed. Audit closed	
Congestion Charging Controls over collection of charge payments (IA_05_179)	28/11/05	4/08/06	To review effectiveness of financial process and controls.	No significant issues identified and minor issues satisfactorily addressed. Audit closed	
Control and Prioritisation of Marketing Spend (IA_05_168)	24/10/05	10/08/06	To review controls over marketing expenditure to ensure resources are used effectively	Minor issues relating to communication with modes and production of financial data on marketing campaigns – all satisfactorily addressed. Audit closed	

Risk: 6 IM Systems and strategy					
IM Healthcheck of Dial A Ride Booking and scheduling System Project (Project Tightrope) (IA_04_143)	29/09/05	8/08/06	To undertake a healthcheck of the IM element of booking and scheduling system.	As project risks identified, it is planned to carry out more audit work during 2006/07. However all management actions addressed to date. Audit closed	
IT Network Controls and Disaster Recovery (IA_04_100)	08/06/05	05/07/06	Review network management controls to ensure structure, organisation and supporting processes of the IT provision were appropriately secure and well controlled	Issues relating to completion of Business Recovery Plan and disaster recovery testing remain outstanding.	
Connect Current System Maintenance and Critical Spares (IA_05_195)	See comment	05/07/06	To review the processes associated with current system maintenance and critical spares	No issues identified so audit immediately closed	IF
Risk: 9 Resilience to major external event					
Security audit of Baker Street Complex (IA_05_228)	28/04/06	27/07/06	To ensure overall physical security was commensurate with the identified risks	Audit closed	

Security Audit of Wood Lane Service Control Room (IA_06_003)	See comment	06/07/06	To ensure overall security is commensurate with identified risks.	Well controlled so audit immediately closed	IF
Security Audit of Paddington Station Group (IA_06_014)	See comment	07/07/06	To ensure overall security is commensurate with identified risks.	Well controlled so audit immediately closed	IF
Security of Blackhorse Road Station Group (IA_05_152)	06/04/06	10/07/06	To ensure overall security is commensurate with identified risks.	Audit closed	
Security Audit of Liverpool Street Station Group (IA_06_013)	See comment	06/07/06	To ensure overall security is commensurate with identified risks.	Well controlled so audit immediately closed	IF
Security Audit of Leyton Station Group (IA_06_011)	See comment	27/07/06	To ensure overall security was commensurate with the identified risks.	No issues identified so this audit was immediately closed.	
Security Audit – East Thames Buses, Mandela Way (IA_05_163)	1/03/06	31/07/06	To ensure overall security.	Audit closed	
Security audit of Notting Hill Gate Station Group (IA_06_010)	See comment	1/08/06	To ensure overall security was commensurate with the identified risks.	No issues identified so this audit was immediately closed.	
Security Audit of Green Park Station Group (IA_06_022)	See comment	1/08/06	To ensure overall security was commensurate with the identified risks.	No issues identified so this audit was immediately closed.	

Audit	Date		Objective	Comment	RAG
Security of Willesden Green Station Group (IA_06_023)	11/07/06	16/08/06	To ensure overall physical security was commensurate with identified risks	Audit closed	
Security Audit of Cobourg Street Service Control Centre (LUL) (IA_06_004)	See comment	29/08/06	To ensure overall physical security was commensurate with identified risks.	Well controlled; no follow up required.	IF
Security of Brixton Station Group (LUL) (IA_06_012)	See comment	06/09/06	To ensure overall physical security was commensurate with identified risks.	Well controlled; no follow up required.	IF
Risk: 10 **Operational Delivery**					
Congestion Charging Controls over the Fleet Scheme (IA_05_219)	23/12/05	4/08/06	To form an opinion on the adequacy and operation of controls over management of the revised processes	Understanding needed as to why the recent changes to fleet scheme had led only to a 30% increase in number of registered fleets. Actions completed. Audit closed	
Mail Services (GS) (IA_04_294)	19/09/05	07/09/06	To provide assurance over management of mail services across TfL	Project has now been initiated using external consultants, that will assess mail services in both TfL and LUL and develop a plan for integrating the services. Audit closed	

Risk: 12 **Governance**					
BMR Process (IA_04_288)	26/09/05	18/08/06	To review efficiency and effectiveness of BMR process	Issues relating to documenting formal Terms of Reference for meetings in BMR process; lack of visible input. All issues addressed satisfactorily. Audit closed	
Risk: 13 **Revenue Collection**					
TPED Collection of Penalty Charges via NCP Contract (IA_05_167)	7/12/05	18/07/06	To ensure there were adequate controls over the enforcement of PCNs under the NCP contract	Issues including NCP failing to achieve some performance targets. All issues resolved. Audit closed	

TRANSPORT FOR LONDON
STAFF SUMMARY
AUDIT COMMITTEE - OPEN SESSION

SUBJECT: **QUARTER 2 PRODUCTIVITY & RESOURCES REPORT**

MEETING DATE: **2 November 2006**
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1.   **PURPOSE**

        The purpose of this paper is to report to the Audit Committee on the broader activity and use of resources in the Internal Audit Department.

2.   **BACKGROUND**

        Attached is the Period End Scorecard for Quarter 2.

3.   **RECOMMENDATIONS**

        The Committee is asked to NOTE the contents of this report and comment on any further performance reporting it would wish to receive on a regular basis.

Internal Audit Scorecard   Q 1& 2 **(1 April – 16 Sept 06)**

Activity

Business & Security Audits

P06				Total	YTD
INT	26	42	3	71	71
Final	68	2	0	70	70

55 audits in progress

Fraud Investigations: 59 New 87 Closed 68 In Progress

Annual Plan 2006/07

- 46%
- 43%
- 2%
- 3%
- 6%

Legend:
- Cancelled
- Started
- Planned
- Final Report
- Interim Report

Utilisation ytd   *8.7% of direct time was bought from E&Y in the half year*

- 66.6%
- 11.4%
- 4.8%
- 1.2%
- 16.0%

Legend:
- Direct
- Leave
- Sick
- Training
- Other
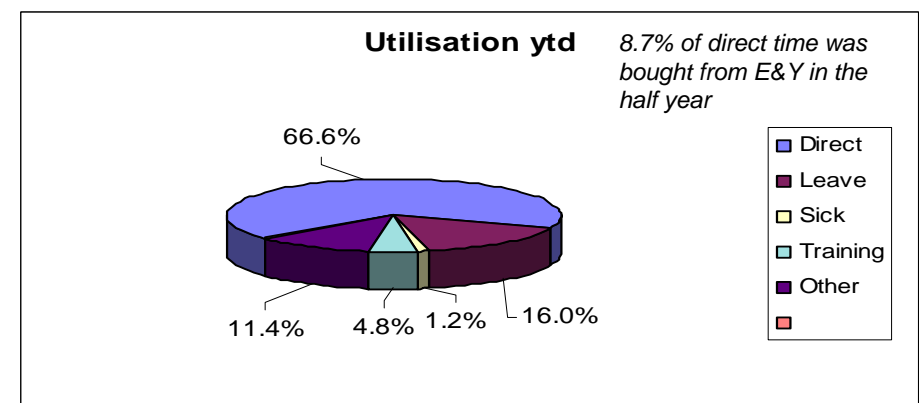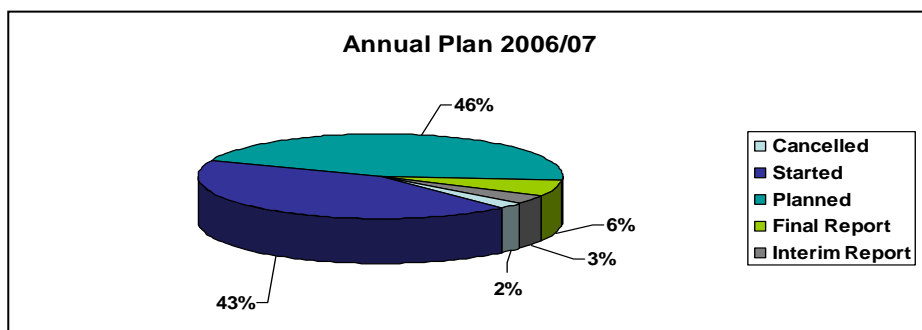
Resources

	Staff Numbers b/f	Joiners	Leavers	Staff Numbers c/f
Director	1			1
Senior Managers & Managers	10	1		11
General Auditors	16	2	(1)	17
Fraud Manager and Investigators	7			7
Security Manager and Auditors	5	1		6
F&S Data Analyst	1	1		2
Admin /Trainee	5			5
Total	45	5	(1)	49

At period end we were recruiting to fill 1 vacancy of Senior Audit Manager, Contracts.

Budget:

Our expenditure to the end of period 6 was £2,496,000 against a budget of £2,453,000 – an overspend of £43,000. This related wholly to general Audit since Fraud & Security's expenditure was exactly in line with its budget.

News Headlines

Mike Plummer took up his new position as Senior Audit Manager – IM.

TRANSPORT FOR LONDON

STAFF SUMMARY

AUDIT COMMITTEE – OPEN SESSION

SUBJECT: **FOI REQUESTS FOR INTERNAL AUDIT REPORTS**

MEETING DATE: **2 NOVEMBER 2006**

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1.   PURPOSE

The purpose of this paper is to inform the Audit Committee of audit reports that have been requested by members of the public.

2.   BACKGROUND

As the Committee will be aware, TfL has published on its website the list of final audit reports issued from July 2002 to March 2006. Going forward publication of the Audit Committee papers (Open Agenda) will include the summary of final audit reports considered earlier in this meeting at Item 4.2. Members of the public are then able to request copies of reports under the Freedom of Information Act and the criteria for assessing whether or not such reports should be published under the FOI are then applied.

Since details of these final audit reports were published, the following reports have been released in response to FOI requests:

- Bus Shelter Advertising Contract Tender
- Bus Shelter Partnership Agreement
- Bus Shelter Advertising Contract
- LU Advertising Revenue Contract (ITT Procurement)
- Effectiveness of Delegated Contractual Authority under PPP Contracts

Some of the information in one of the appendices to the Bus Shelter Advertising Contract Tender report was not released as it was deemed to be commercially sensitive. The other four reports were released in full.

3.   RECOMMENDATIONS

The Committee is asked to NOTE the contents of this report.

KPMG LLP

Transport Trading Limited

Audit strategy – year ending 31 March 2007

Presentation to the Audit Committee on 2 November 2006

DRAFT

AUDIT

Contents

Introduction

Scope

- The purpose of this document is to set out our approach to the audit of the financial statements of Transport Trading Limited and its subsidiaries (collectively "TTL") for the year ending 31 March 2007

- In particular this paper describes:

  – Overview of audit strategy and approach

  – Audit process explained

  – The key audit risks

  – Timeline and principal deliverables

  – The client service team members

Our responsibilities as auditor

- As auditor to TTL we are required to provide an audit opinion in accordance with the UK Companies Acts on the accounts of all group companies (excluding those which are dormant). Under UK company law, our responsibility is to the shareholders of TTL. In addition we have professional responsibilities to report certain matters, if they come to our attention, to regulatory bodies

- Our audit of TTL is conducted in accordance with Auditing Standards and our formal terms of reference are set out in our existing engagement letter.

Restriction on circulation

- This document is provided on the basis that it is for the information of TfL Audit Committee and that it will not be quoted or referred to, in whole or in part, without our prior written consent; and that we accept no responsibility to any third party in relation to it

Audit strategy and approach

Our audit strategy is based upon a clear understanding of, and focus on, the risks facing TTL, obtained by a thorough understanding of TTL's strategy, goals and the business environment in which it operates

Our audit approach entails (in overview):

- Documenting our understanding of the key financial processes by which transactions are recorded through to the financial statements, the related controls, including assessing TTL's internal control environment
- Testing that controls which are relied upon, have operated effectively throughout the year; and
- Following our assessment of processes and controls, we determine the focus and extent of substantive testing required to form our audit opinion

Materiality and reporting of audit differences

Auditing Standards require that we plan our audit to determine with reasonable confidence whether or not the financial statements being reported on are free from material misstatement. We will discuss materiality levels with management and the Audit Committee.

An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements; this therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements

Generally, we would not regard differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee misstatements of lesser amounts to the extent these are identified by our audit work

Under UK Auditing Standards (SAS 610) we are obliged to report omissions or misstatements other than those which are 'clearly trifling' to those charged with governance, and to request that adjustments are made to correct such matters

Working with Internal Audit

We plan to work closely with Internal Audit to ensure that information is shared, that verification work is targeted at areas of greatest risk and that duplication of work is avoided. We generally rely on the work of Internal Audit as part of the overall framework of internal control and keep up to date with the findings of their own work. We have regard to their work, where appropriate, in planning the procedures that we have to perform for our external audit. In order to place such reliance we will need to satisfy ourselves as to the level and quality of Internal Audit's work during the current financial year.

Working with KPMG teams

We will work closely with our KPMG colleagues who audit TfL Group and Corporation so as not to duplicate work e.g. Interim audit work at both the Financial and HR Shared Service Centres and to offer a seamless service overall. Furthermore, we will use IT audit specialists to support completion of our interim work and property valuation specialists to assist in auditing the carrying value of your freehold properties. We will use other specialists as necessary to support the audit team.

Audit process explained

- The audit process is outlined below. It is structured in a way which allows us to focus on the key issues and complete the audit in an efficient manner

Planning
- Obtain an understanding of your business and environment, including your accounting policies, practices and financial performance
- Understand and evaluate the design and the implementation of the Internal controls framework operating with TTL as relevant to the audit
- Identify the risk of material misstatement of the accounts, including risks of fraud and error
- Develop our audit strategy in response to those risks e.g. timing of work composition of team, materiality and use of specialists
- Develop our detailed audit approach for significant balances, risks and disclosures

Control Evaluation
- Gain a detailed understanding of your accounting and reporting processes and procedures including related controls
- Evaluate the design and implementation of selected controls to assess the risks of significant misstatement for each of our planned audit areas
- Test the operating effectiveness of those controls during the year to assess whether we can rely on them to provide audit evidence and thus modify the extent of our substantive procedures

Substantive Testing
- Perform substantive audit procedures on those audit balances where our Control evaluation work has concluded that such work is necessary to obtain adequate audit evidence
- Substantive procedures include analytical tests, test of detail and specific fraud procedures

Completion
- Evaluated, on an overall basis the results of audit procedures performed, particularly, significant findings and issues resulting from the audit; actions taken by management to address them and the basis for the conclusions reached
- Complete a detailed review of the financial statements including final analytics; and read relevant other information, evaluate independent and ethical issues and obtain management representations

Key audit risks

Financial issues	Impact on financial statements	Audit approach
Accounting for PPP contracts Accounting for the PPP contracts is a complex area. The accounting is driven from financial models, which calculate the profit and loss account impact. The charge for the year is also impacted by the level of abatements. These are adjustments made to the infrastructure service charge	● Incorrect application of the model could lead to incorrect charges in the accounts. ● Inaccurate collection of abatement data and inaccurate processing could lead to an incorrect charge for the PPP	● We will review any changes made to financial model during the year and discuss those changes made with management ● We will review the output from the PPP model to ensure that the charge for the year makes sense ● We will review the management of the CUPID system which controls PPP abatements. We will discuss major issues arising during the year end their financial impact with management
Accounting for fixed assets under the PPP Under the PPP contracts the fixed assets subject to the PPP remain on LUL's balance sheet. As a result LUL is dependent on the Infracos to provide sufficient information on the costs incurred on those fixed assets during the year to enable LUL to appropriately maintain its fixed asset register and prepare its accounts. At last year end the quality of the data provided by the three PPPs had improved although was still not perfect or timely	● Inability to account properly for fixed assets and maintain an up-to-date fixed asset register. Potentially an inability to prepare the relevant sections of the accounts	● We will review this data with management during the interim audit and make any suggestions we deem necessary to improve the quality of the information ● If necessary, we will discuss with management alternative work which can be undertaken to give us comfort over the fixed asset numbers in the accounts
Accounting for claims and litigation TfL is subject to some significant claims in respect of capital works. The most significant are within LUL, including on PFI contracts. Claims have also been received by LUL on the PPP contracts. It might also be anticipated that there will in the future be additional claims arising on the PPP contracts. These claims can be substantial. By their nature the assessment of the amount to provide for a claim in the accounts is a very judgmental matter.	● Significant judgment involved in the assessment of the amount of claims provided in the accounts	● We will discuss the position on outstanding claims with management. We will review any available evidence in making an assessment of the amount to be provided in the accounts

Timeline and deliverables

Timeline and deliverables

The key phases of our workload, and associated deliverables, for the audit of TTL for the year ending 31 March 2007 are detailed below:

Activity	Timing	Addressees	Deliverables
Interim audit	October-November 2006	Audit Committee TfL Management	A report, by exception, of the significant control findings arising from our audit
Year-end audit	April - June 2007	Audit Committee TfL Management	Summary of the key: audit, accounting, control, and tax findings arising from our audit A summary of unadjusted audit differences for consideration and confirmation of immateriality by the Audit Committee in respect of: • Transport trading Limited • London Underground Limited • London Buses Limited • London Buses Services Limited • Victoria Coach Station Limited • London River Services Limited • Docklands Light Railway Limited

Client service team

Your KPMG team

We aim to ensure that our team blends experience of TTL with industry knowledge and specialist input.

We regularly review the succession plans for those involved in key roles.

Key team members:

- *June Taylor* – Lead partner for TfL

  June will be responsible for leading our communication with the TfL Audit Committee and Senior Executives. She will also be responsible for overall client service

- *Andrew Marshall* – TTL audit engagement partner

  Andrew will be responsible for the delivery of the audits of TTL and its subsidiaries and signing the audit opinions on those accounts

- *Milan Pandya* - Audit senior manager of TTL Group

  Milan will be responsible for the day to day direction of the TTL Group audit in support of Andrew

Audit Committee
Transport for London
Company Secretariat
14th Floor
Windsor House
42-50 Victoria Street
London SW1H 0TL

Our ref   mf/588

18 October 2006

Dear Sirs

Non-Audit Fees – Six Months to 30 September 2006

Under TfL's policy on external audit services we are required to provide to the Audit Committee, on a six monthly basis, a report on fees we have billed for non-audit services. We tabled our last report at the meeting of the Audit Committee on 15 June 2006, when we provided a summary of non-audit fees for the six months to 31 March 2006. Appendix 1 to this letter includes a summary of our audit fees, non-statutory audit fees (A) and non-audit fees (B) billed during the period 1 April 2006 to 30 September 2006.

Yours faithfully

June Taylor
Partner, KPMG LLP

Enc. Summary of Audit Fees

kpmg

TRANSPORT FOR LONDON

FEES FOR NON-AUDIT SERVICES – 1 APRIL 2006 TO 30 SEPTEMBER 2006

Entity	Statutory Audit Fee 2006/07 £	Non-Statutory Audit Fee 2006/07 (A) £	Non-Audit Fees 2006/07 (B) £	Comments
TfL Group and Corporation	52,000	-	-	Fee in respect of Data Quality Review – billed September 2006
TfL Group and Corporation	50,000	-	-	Fee in respect of Use of Resources assessment – billed September 2006
TfL Group and Corporation	272,000			Fee in respect of Accounts Audit 2006/07 – not yet billed
TfL Corporation			3,870	Fee in respect of VAT helpline
Transport Trading Limited	Not yet available			Our fee proposal for the 2006/07 audit will be submitted shortly (2005/06 fee £476,827)
London Underground Limited	-			Our fee proposal for the 2006/07 audit will be submitted shortly
Docklands Light Railway Limited	-	-	46,328	Fee in respect of Revenue Allocation audit under the new franchise
London Transport Insurance (Guernsey)	Not yet available			Audited by KPMG's Channel Islands practice (2005/06 fee £11,600)
TOTAL	**Not available**	**-**	**50,198**	Maximum allowable for non-audit fees over the whole year is the higher of 20% of the total statutory audit fee or £25,000.

kpmg

(1) The statutory audit fee for TfL Corporation for 2006/07 is as set out in the TfL Annual Audit and Inspection Plan, presented to the Audit Committee in March 2006. All fees shown are net of VAT.

(2) Statutory audit services are, for TfL, services required to meet the Audit Commission's Code of Audit Practice requirements and, for TTL and its subsidiaries, services required to enable the external auditor to issue an audit opinion on the annual accounts in accordance with the Companies Act.

(3) Non statutory audit work (A) is audit work performed outside the definition of statutory audit services, such as work on grant claims and returns where an audit certificate is required as a condition of the grant scheme. Under TfL's policy, external auditors may be engaged to carry out non-statutory audit services without restriction as to the fees that may be charged for such services.

(4) Non-audit work (B) represents work other than statutory and non-statutory audit services. The overall maximum on non-audit fees for each financial year is the **higher** of (i) 20% of the statutory audit fee and (ii) £25,000.

2006-07 Data
Quality Review

Transport for London

27 October 2006

Content

The contacts at KPMG in connection with this report are:

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The Audit Commission has developed a three-stage approach for assessing data quality, the first stage being a review of management arrangements for data quality. The objective of this stage of the work is to determine whether Transport for London (TfL) has proper corporate management arrangements for data quality in place, and whether these are being applied in practice. Stage two involves arithmetic checks to determine the completeness of selected Best Value Performance Indicators (BVPIs) identified by the Audit Commission. Finally, stage three is an in-depth data quality spot check review of a sample of your PIs (both BVPIs and non-BVPIs).

The findings will contribute to our conclusion under the Code of Audit Practice on the audited body's arrangements to secure value for money in relation to the specific criterion on data quality **"TfL has a track record of using high quality information on costs to actively manage performance, improve value for money and target resources"**. Our conclusion on this matter will be issued with the audit opinion on your 2006-07 accounts.

Stage One

The purpose of the work on management arrangements is to focus on the corporate data quality arrangements for the performance information prepared and used by TfL. The new approach is a departure from the work we have previously undertaken on BVPIs. In assessing the corporate management arrangements for data quality, we have looked beyond the previous focus on departmental systems and processes to consider how you are securing the quality of the data you use across the board.

The review of management arrangements is structured around five themes:

- Governance and leadership;
- Policies and procedures;
- Systems and processes;
- People and skills; and
- Data use.

These break down into thirteen Key Lines of Enquiry (KLoEs) on which we have made an assessment of your arrangements against each KLoE and have scored you against each theme, and overall, on a scale of 1-4 as defined below:

Score/ level	Description
1	Below minimum requirements - inadequate performance
2	Only at minimum requirements - adequate performance
3	Consistently above minimum requirements - performing well
4	Well above minimum requirements - performing strongly

As a result of the work performed, we have assessed your **overall score** as a **three**, which means that overall you are performing well. You have performed well in respect of your arrangements over systems and processes and data use, however, further improvements are required in respect of your governance arrangements, development of policies and procedures and ensuring your commitment to data quality is embedded within the roles and responsibilities of staff which they are assessed against.

We have provided details of our key findings in Section One. A detailed summary of the findings and scores for each theme and KLoE can be found in Appendix 1.

Executive Summary

Stage 2

During stage two of the process we followed up issues arising from the analytical review carried out by the Audit Commission. The Audit Commission identified the following three BVPIs which they have required us to perform a data quality spot check on:

- BVPI 102: Bus patronage
- BVPI 165: Percentage of pedestrian crossings with facilities for disabled people
- BVPI 215: Speed in fixing street lights (comprising BVPI 215a and BVPI 215b)

Stage 3

When choosing how many and which PIs to review at stage three, in addition to those identified for review by the audit commission, we used the results from stage one and our cumulative audit knowledge and experience to determine the total number of PIs for review. As a result of this, we have identified two further BVPIs where we have chosen to perform a light touch review:

- BVPI 14: The percentage of employees retiring early as a percentage of the total workforce - this was chosen as a result of an error identified in the previous years calculation of the PI; and
- BVPI 223: Condition of principal roads - this was chosen as a result of a change to the BVPI definition.

The results of this review indicate that the data quality underpinning your PIs is largely adequate, although you need to strengthen your arrangements in respect of data held by area teams and data provided by external contractors. For example, BVPI 165 is complied from data sourced by five area teams only one of which, the central area team, could adequately provide and support its data at the time of our audit. We are currently in discussion with TfL officers to determine whether further information can be provided to support this PI.

The results of our detailed spot check and review of your Performance Indicators are summarised in Section Two of this report.

Best Value Performance Plan Report

As in prior years, we have also audited your Best Value Performance Plan 2006-07 in accordance with section 7 of the Local Government Act 1999 and the Audit Commission's Code of Audit Practice.

A copy of our unqualified report is attached at Appendix 2.

As a result of the work performed, we have assessed your **overall score** as a **three**, which means that overall you are performing well. You have performed well in respect of your arrangements over systems and processes and data use. However, further improvements are required in respect of your governance arrangements, development of policies and procedures and ensuring your commitment to data quality is embedded within the roles and responsibilities of staff which they are assessed against.

The table below sets out the key drivers behind each theme, and details areas where you are currently meeting requirements and areas where further development is required.

Theme	Score	Summary of key issues
Governance & Leadership	2	✓ Your data quality is implicitly integrated into planning, monitoring and reporting processes, and although you are starting to focus on data quality, this work has so far been driven departmentally rather than corporately. • To improve your score the organisation would need to develop a corporate data quality strategy, embedding a framework for monitoring data quality and communicating your commitment to data quality to all staff responsible for the preparation of performance information.
Policies & Procedures	2	✓ At a devolved level, relevant staff are aware of the importance of data quality, and staff are trained on policy and procedures on an informal and ad hoc basis. Your policy and procedures however do not cover all aspects of data quality. • Improvement of your score would require the development of a data quality policy supported by a set of operational procedures and guidance which are monitored and reported to senior management.
Systems & Processes	3	✓ You have appropriate systems in place for the collection, recording, analysis and reporting of the data used to monitor performance, and appropriate controls are in place to ensure that information systems secure the quality of data used to report on performance. • The key drivers behind improvement of your score in this area would be the performance of detailed scenario planning for your performance information systems, ensuring you have a formal set of data quality requirements in respect of data sharing and ensuring you seek to ensure consistent high standards in respect of data quality across all your partnership working.
People & Skills	2	✓ At a devolved level, you have undertaken an assessment of the data quality skills you have in place across the workforce and your appraisal process identifies the training requirements against each job. However, specific data quality targets and standards have not been set. • Improvement of this score would require a group wide review of roles and responsibilities in relation to data quality, training on data quality and setting of data quality standards which staff are formally assessed against.
Data Use	4	✓ You have put in place arrangements that are focused on ensuring data supporting performance information is used to manage and improve your delivery of services, and you have effective controls in place for data reporting.

Section Two
Stages Two and Three: Data Quality Spot Checks

We carried out spot checks as per Audit Commission guidance on four of your performance indicators (PIs), and a review of an additional two of your PIs highlighted from our risk assessment. As a result of our audit work one PI was amended and reservations issued on three PIs as summarised in the table below.

PI	Description	Value stated	Conclusion
Spot Checks			
BV102	Number of local bus passenger journeys originating in the authority area undertaken each year (millions)	1,816	Fairly stated.
BV165	The percentage of pedestrian crossings with facilities for disabled people, as a proportion of all crossings in the local authority area	64.1%	Reservation issued: • Confusion between the ODPM and the Audit Commission guidance on the definition of a four arm junction has led to data used to compile the PI to be estimated based on historical data, where the quality of data differs between the five area teams. We are therefore unable to assess the accuracy of the reported PI. • We were unable to agree a list of all crossings included in the PI calculation to a list of crossings maintained by the maintenance contractors. A detailed record of all crossings and their status by junctions and arms for the central area team has been supplied, however, this could not be provided by the other four area teams at the time of our audit.
BV215a	The average number of days taken to repair a street lighting fault, which is under the control of the local authority	12.5	Reservation issued: • Data captured for these PIs is sourced from contractors, however, data quality requirements are not specified in any formal agreement. • Recording of data is performed by five area teams and in completing our testing we have only been able to agree the raw data for the central area team into the PI calculation.
BV215b	The average number of days taken to repair a street lighting fault, where response time is under the control of a DNO.	42.4	• We have also been unable to test whether the start date and completion date are correct, the time taken has been correctly calculated, and that the type of light units and fault fall within the PI definition as this information could not be provided. • Officers have indicated that this information is available and we are currently in discussion with them to determine whether the reservations issued on BV215a and BV215b should be amended.
Reviews			
BV14	The percentage of employees retiring early as a percentage of the total workforce	0.36%	Fairly stated.
BV223	Percentage of the local authority principal road network (TLRN) where structural maintenance should be considered.	9.29%	Fairly stated.

Management Arrangements - Summary of Scores

Theme/Key Lines of Enquiry (KLOE)	Score
Governance and leadership	**2**
1.1 Responsibility for data quality is clearly defined	1
1.2 You have clear data quality objectives	2
1.3 You have effective arrangement for monitoring and review of data quality	2
Policies and procedures	**2**
2.1 A policy for data quality is in place, supported by a current set of operational procedures and guidance	2
2.2 Policies and procedures are followed by staff and applied consistently throughout the organisation	2
Systems and processes	**3**
3.1 You have appropriate systems in place for the collection, recording, analysis and reporting of the data used to monitor performance, and staff are supported in their use of these systems	4
3.2 You have appropriate controls in place to ensure that information systems secure the quality of data used to report on performance.	4
3.3 Security arrangements for performance information systems are robust, and business continuity plans are in place	3
3.4 An effective management framework for data sharing is in place	2
People and skills	**2**
4.1 You have communicated clearly the responsibilities of staff, where applicable, for achieving data quality	2
4.2 You have arrangements in place to ensure that staff with data quality responsibilities have the necessary skills	2
Data use	**4**
5.1 You have put in place arrangements that are focused on ensuring that data supporting performance information is also used to manage and improve the deliver of services	4
5.2 You have effective controls in place for data reporting	4

Module one: Governance and leadership

Is there a corporate framework of management and accountability for data quality, with a commitment to securing a culture of data quality throughout the organisation?

KLoE 1. Has the body put in place arrangements at a senior level to secure the quality of data used to manage and report on performance?	Overall proposed score: 2

1.1: Responsibility for data quality is clearly defined.	Proposed score: 1

Elements where requirements are met:	In order to progress to the next level, further work is required to ensure that:
✓ Data quality is seen as being 'part of the day job', and is implicitly integrated into planning, monitoring and reporting processes at an operational level.	• Responsibility for data quality is assigned at a corporate level. • Your commitment to data quality (for example, the importance of, and arrangements for, securing the quality of key data) is explicitly outlined in key strategic documents, such as your corporate plan. • A senior officer has overall strategic responsibility for data quality. • Your corporate commitment to data quality is explicitly communicated. In doing so you would reinforce the message that all staff have a responsibility for data quality. • Accountability for your overall data quality is clearly and formally defined. • Issues relating to data quality are explicitly considered by or reported to those charged with governance. • Senior officers receive specific training on the importance of data quality and your approach to managing the associated risks.

1.2: You have clear data quality objectives.	Proposed score: 2

Elements where requirements are met:	In order to progress to the next level, further work is required to ensure that:
✓ Objectives for data quality management are developing at a devolved level, but work is required to formalise them into a corporate level strategy or plan. ✓ You are working to improve data quality, for example through the local audits you perform in respect of data received from contractors around street lightening repairs, but as yet there are no defined milestones, targets or monitoring at a corporate level. ✓ You have begun to focus on data quality, but this work has so far been driven departmentally rather than corporately. ✓ At a devolved level, departments have implicit data quality objectives.	• A formal corporate strategy for data quality is developed. This should link your corporate objectives for data quality management to your business objectives. It should also have an associated delivery plan, with clearly identified actions, responsibilities and timescales to support improvement. • You communicate your commitment to data quality to all staff. As part of this process you should undertake a review of staff awareness of data quality issues.

1.3: You have effective arrangements for monitoring and review of data quality.	Proposed score: 2

Elements where requirements are met:

✓ Monitoring and review of data quality has been undertaken, although this has primarily been on an ad hoc basis. Reports are produced as a result of these reviews which are submitted for top management attention.

✓ In light of these ad hoc reviews, you can demonstrate that action has been taken to address the results of internal and external data quality reviews. For example, the 2004-05 BVPI audit we performed required you to amend one indicator which resulted in you implementing procedures to prevent the error recurring.

✓ You have begun to consider data quality as part of your corporate risk management arrangements, for example, the quality of data underpinning your key PPP contracts.

✓ At a devolved level, you are able to demonstrate that you satisfy all internal and external requirements (where applicable) in relation to the quality of your data.

✓ You can demonstrate you have taken action to address key variances in relation to data quality.

✓ BVPIs are signed off by the performance lead and relevant director before inclusion within committee reports. All committee reports are signed off by the author and director prior to external reporting.

In order to progress to the next level, further work is required to ensure that:

• A framework for monitoring data quality is in place. This should include regular formal reporting on key data quality measures, enabling robust challenge of data integrity.

• There is a formal programme of data quality review. This should be proportionate to risk and reported to those charged with governance. It should include reporting on the accuracy of data supporting key performance indicators.

• Data quality is embedded into corporate risk management arrangements. You should undertake regular assessments of the risks associated with unreliable and inaccurate information.

• You undertake benchmarking exercises to review the effectiveness of your data quality monitoring arrangements.

• Examples of good practice in securing data quality are cascaded corporately. This occurs on a silo basis, with no means of sharing good practice at a corporate wide level.

Management response to KLoE 1:

• Historically TfL has worked to ensure that data quality processes are embedded at the point of delivery within operational teams. TfL will review the need to establish corporate wide standard policies and procedures in this area.

Module two: Policies and procedures

Are there appropriate policies and procedures in place to secure the quality of data recorded and reported by the organisation?

KLoE 2. Has the organisation defined its expectations and requirements in relation to data quality?	Overall proposed score: 2

2.1: A policy for data quality is in place, supported by a current set of operational procedures and guidance.	Proposed score: 2

Elements where requirements are met:	In order to progress to the next level, further work is required to ensure that:
✓ There are a number of procedures and guidance notes in place but these do not yet cover all aspects of data collection, recording, analysis and reporting, or are not in place in all business areas. ✓ A data quality policy, or set of policies, is implicit in operational procedures. ✓ Your current arrangements cover data quality requirements in relation to partnership working, for example the data received from contractors engaged to maintain street lighting. ✓ You can demonstrate that some operational procedures and guidance have been developed with staff involved in the process. The level of staff input is determined by feasibility based on team size.	• Your data quality policies and procedures are approved by senior management at a departmental level. They should also be reviewed at least annually and updated as required. Your existing operational policies and procedures are updated on an ad hoc basis. • A comprehensive data quality policy is in place. This should cover data collection, recording, analysis and reporting and should be implemented across all business areas. It should meet relevant national standards and requirements, as well as defining local practices and monitoring arrangements. Furthermore, it should be supported by a comprehensive and current set of operational procedures and guidance.

2.2: Policies and procedures are followed by staff and applied consistently throughout the organisation.	Proposed score: 2

Elements where requirements are met:	In order to progress to the next level, further work is required to ensure that:
✓ At a devolved level, all relevant staff are aware of the importance of data quality. ✓ Training on the policy and procedures takes place on an informal and ad hoc basis. You should seek to formalise this. ✓ All staff are able to access the policies, procedures and guidance. Where possible this is supported by information systems, typically through the use of your shared drive. ✓ You can demonstrate that you are proactive in informing staff of any policy or produce updates on the preparation of PIs on a timely basis, for example changes to the definitions of Best Value indicators.	• Mechanisms are in place to monitor compliance with policies and procedures. The results of such monitoring should be reported to top management. • Instances of failure to comply with corporate policies and procedures and national standards, or poor performance against data quality targets, are investigated and corrective action taken. The first step towards this would be setting formal data quality targets and agreeing a reporting framework to monitor your performance against target. • Each department is assigned a data quality champion who regularly reviews and reports on compliance with relevant policies and procedures.

Management response to KLoE 2:
- Historically TfL has worked to ensure that data quality processes are embedded at the point of delivery within operational teams. TfL will review the need to establish corporate-wide standard policies and procedures in this area.
- If following review corporate-wide policies and procedures are established, TfL will ensure that appropriate mechanisms are created to ensure their compliance.

Module three: Systems and processes

Has the organisation put in place systems and processes which secure the quality of data as part of the normal business activity of the organisation?

KLoE 3. Are there effective systems and processes in place to secure the quality of data?	Overall proposed score: 3
3.1: You have appropriate systems in place for the collection, recording, analysis and reporting of the data used to monitor performance, and staff are supported in their use of these systems.	**Proposed score: 4**

Elements where requirements are met:

✓ Some minor weaknesses exist in your systems, but action is being taken to address these. For example you are aware of the limitations of your bus patronage data hence two data sets are monitored and compared to ensure data accuracy.

✓ Systems support for staff is provided, but improvements could be made, for example making support more accessible / responsive.

✓ Recent internal and external system reviews, for example the 2004-05 BVPI audit, have not identified significant weaknesses.

✓ Through SAP Executive Reporting, you have systems in place for reporting corporate performance information based on data which is accurate, valid, reliable, timely, relevant and complete.

✓ Arrangements for collecting, recording, compiling and reporting data are integrated into your wider business planning and management processes, and support staff in their day-to-day work. Central to this is your monthly reporting of KPIs.

✓ Adequate support is provided for staff using your systems and processes. SAP Executive Reporting outlines the required data, the output to be generated and the associated timings. A template guidebook is in place for each of your KPIs.

✓ You undertake regular reviews to ensure that outputs are timely, accurate, clear and in a format convenient to users.

✓ You consult with staff when developing or implementing systems. This is normally required following a PI definition change; the mode informs the systems team of the definition change and advises what output is required. Systems then render the draft output, confirming its suitability with the mode, before it goes live on SAP Executive Reporting.

In order to progress to the next level, further work is required to ensure that:

• You recognise the importance of your information systems, whether manual or computerised, operating on a 'right first time' principle. Some work is needed to achieve this, for example continued training of bus drivers to record ticket types accurately and reliably.

Module three: Systems and processes (continued)

3.2: **You have** appropriate controls in place to ensure that information systems secure the quality of data used to report on performance.	**Proposed score: 4**

Elements where requirements are met:	We have not identified any elements where further work is required.

Elements where requirements are met:

- ✓ Appropriate controls are in place for both manual and computerised systems, particularly where there is a dependency on spreadsheet systems.

- ✓ You have some arrangements in place to review the effectiveness of controls, for example internal audit included numerous reviews of SAP (financial and non-financial data) within their annual audit plan.

- ✓ High-level reviews of data are carried out before reporting to senior management and beyond.

- ✓ Performance information systems have built-in controls to minimise the scope for human error or manipulation, and prevent erroneous data entry, missing data, and unauthorised data changes. SAP Executive Reporting supports this through the use of write-protected fields and formulas within the KPI templates. Further logic checks are undertaken by modes prior to submission onto SAP Executive Reporting. Access to SAP Executive Reporting is limited to c.300 of the c.19,000 TfL employees, restricted through passwords and access controls, to ensure only appropriate officers can access and update data.

- ✓ Controls are reviewed by internal audit to ensure that they are working effectively. Results of these internal audit reviews are reported to top management.

- ✓ Data is subject to departmental checks and management review for each reporting period before being reported to top management through SAP Executive Reporting.

- ✓ You can demonstrate some evidence of ad hoc proactive strengthening of your performance information system controls. For example, SAP improvements driven by the Momentum Group; improvements to your performance data quality resulting from data cleansing activities; and streamlining of your reporting functions.

We have not identified any elements where further work is required.

Module three: Systems and processes (continued)

3.3: Security arrangements for performance information systems are robust, and business continuity plans are in place.	Proposed score: 3

Elements where requirements are met:

✓ Security arrangements, including access control, are in place for your business critical performance information systems. However, as part of our 2005-06 accounts audit we did identify instances where SAP access controls were not operating as designed.

✓ A business continuity plan is in place to provide protection for records and performance data which are vital to the continued effective functioning of the organisation.

✓ Procedure notes and manuals are in place for all performance information systems identified as being business-critical and these are reviewed and updated as appropriate.

✓ You regularly test your performance information systems to ensure that processes are secure and reports to top management. Principally this occurs in respect of SAP and PRESITGE.

In order to progress to the next level, further work is required to ensure that:

• You can demonstrate you have carried out detailed scenario planning for your performance information systems and made changes to address any weaknesses identified.

3.4: An effective management framework for data sharing is in place.	Proposed score: 2

Elements where requirements are met:

✓ Instances of internal and external data sharing have been identified, but formal protocols have yet to be developed. You have protocols in place for sharing some key data internally.

✓ You have a framework in place for identifying and complying with all relevant legal, compliance and confidentiality standards.

✓ There are processes in place to validate data from third parties, for example the audits that are undertaken to validate kerb height data to comply with disability regulations.

✓ You can demonstrate you have implemented high standards of data management governance in respect of the majority of your partnership working. You should seek to ensure consistently high standards across all your partnership working.

In order to progress to the next level, further work is required to ensure that:

• A formal set of data quality requirements is applied to all data you use which is shared externally, or which is provided to third parties.

Management Response to KLoE 3:

• Considerable management effort (3.1) has been undertaken to ensure data systems and processes are fit for purpose, such as the introduction of SAP and subsequent related process development work. TfL will continue to focus on the management systems and associated data to further improve accuracy and timeliness.

• Security arrangements for performance systems (3.3 & 3.4) will be reviewed as part of TfL's overall contingency planning activities, and any need for further formal data quality requirements will be reviewed with external users of the data as appropriate.

Module four: People and skills

Has the organisation put in place arrangements to ensure that staff have the appropriate knowledge, competencies and capacity for their roles in relation to data quality?

KLoE 4. Does the organisation have the resources in place to secure data quality?	Overall proposed score: 2

4.1: You have communicated clearly the responsibilities of staff, where applicable, for achieving data quality.	Proposed score: 2

Elements where requirements are met:

✓ At a devolved level, you have undertaken an assessment of the data quality skills that you have in place across the workforce and identified potential gaps. This is performed as part of your regular recruitment and selection process.

✓ You have formal arrangements in place for discussing, setting and reviewing annual performance targets. These are input to SAP and form part of the annual pay award. The staff performance / appraisal process also includes identifying staff training requirements, therefore implicit that staff skills are assessed against the requirements of the job. To further improve, you should consider setting data quality targets and standards which staff should be assessed against.

In order to progress to the next level, further work is required to ensure that:

• Although quality is implicit in your core competencies on Performance, Drive and Results Delivery, roles and responsibilities below the strategic level in relation to data quality are not explicitly defined and documented. These should be incorporated into job descriptions and efforts made to apply these roles and responsibilities consistently.

• You can demonstrate you have an effective team of data quality champions that have successfully driven improvement.

• You can demonstrate you have assessed of how well staff understand their data quality roles and responsibilities.

4.2: You have arrangements in place to ensure that staff with data quality responsibility have the necessary skills.	Proposed score: 2

Elements where requirements are met:

✓ Staff with specific responsibilities for data input or data quality have received some on the job data quality training. This is updated on a needs basis to ensure staff are aware of new developments in terms of PI definitions etc. Again this occurs on an informal and ad hoc basis.

✓ Weaknesses identified through internal and external reviews of data quality are adequately addressed through the training programmes in place.

In order to progress to the next level, further work is required to ensure that:

• Although some departments are addressing weaknesses identified from data quality reviews through training, this should be developed corporately.

• You have demonstrably trained all staff to ensure they have the necessary skills for the effective collection, recording, analysis and reporting of data.

• There are corporate arrangements in place to ensure that data quality training is periodically evaluated and adapted to respond to changing needs.

• You can demonstrate that you have identified future developments that may impact on data quality staff skills and capacity and that this is being proactively managed.

Management response to KLoE 4:

• TfL will review the incorporation of data quality into core training, competency and job role frameworks.

Module five: Data use

Has the body put in place arrangements that are focused on ensuring that data supporting performance information is also used to manage and improve the delivery of services.

KLoE 5. Are there effective arrangements and controls in place for the use of data by the organisation ?	Overall prposed score: 4
5.1: You have put in place arrangements that are focused on ensuring that data supporting performance information is also used to manage and improve the delivery of services.	**Proposed score: 4**

Elements where requirements are met:	We have not identified any elements where further work is required.
✓ Reported data is fed back to those who generate it to reinforce understanding of the way it is used. ✓ Performance information is regularly used, to identify deviations from planned performance. ✓ There is timely action on performance shortfalls, and follow-up to ensure action has been taken. ✓ Data used for reporting to those charged with governance is also used for day-to-day management of your business, in particular through your management accountants. ✓ Reports are prepared on an exception basis so that areas where action is needed are clearly identified. ✓ There is evidence that management action is taken to address service delivery issues identified by data returns and performance information reports, for example through your Business Monitoring Reviews. ✓ Reports include an element of prediction rather than merely being a record of historical events. For example, your KPI scorecards include projections on performance. ✓ Data is used not only to measure the volume of activity delivered but also to assess the quality of the service provided. For example, service provision by bus operators. ✓ Senior management routinely and actively use data supporting performance information to plan and allocate resources. ✓ Members have available to them high level information with which they can assess delivery of services in relation to agreed plans.	

Module five: Data use (continued)

5.2: You have effective controls in place for data reporting.	Proposed score: 4
Elements where requirements are met: ✓ Definitions are generally applied correctly to all data items. ✓ All data returns are supported by a clear and complete audit trail, although there may be some weaknesses. ✓ There is evidence that controls are exercised over data to verify its accuracy. ✓ Reported data is generally submitted on a timely basis. Instances of data not being submitted on a timely basis are fully investigated and reported to management. ✓ Information which is used for external reporting is subject to rigorous verification, especially where errors may lead to loss of income. For example, this is demonstrated through monitoring of mileage losses on bus routes. ✓ All data is subject to senior approval prior to external reporting. ✓ There is evidence that senior officers follow up on action taken to address identified problems to ensure that the action has been implemented and has been effective.	We have not identified any elements where further work is required.

Best Value Performance Plan Report

Auditor's Report to Transport for London on its Performance and Improvement Plan for the Financial Year 2006/07

Certificate

We certify that we have audited the Transport for London (TfL) best value performance plan in accordance with section 7 of the Local Government Act 1999 ('the Act') and the Audit Commission's Code of Audit Practice ('the Code').

This report is made solely to TfL, in accordance with Section 7 of the Act. A copy of this report will be sent to the Audit Commission under section 7(5)(b) of the Act in relation to our recommendation to the Audit Commission under section 7(4)(e). A copy of this report will be sent to the Secretary of State under section 7(5)(c) of the Act if we include a recommendation under section 7(4)(f) that the Secretary of State should give a direction under section 15 of the Act.

Our audit work has been undertaken so that we might state to TfL, to the Audit Commission and (where necessary) to the Secretary of State those matters we are required to state to them in such an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than (i) TfL, for our audit work, for this report, or for the opinions we have formed, (ii) the Audit Commission, for our recommendation under section 7(4)(e) and (iii) the Secretary of State, for our recommendation (if positive) under section 7(4)(f) of the Act.

Respective Responsibilities of TfL and the Auditor

Under the Local Government Act 1999 (the Act), TfL is required to prepare and publish a best value performance plan summarising TfL's assessment of its performance and position in relation to its statutory duty to make arrangements to secure continuous improvement to the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

TfL is responsible for the preparation of the plan and for the information and assessments set out within it. TfL is also responsible for establishing appropriate performance management and internal control systems from which the information and assessments in its plan are derived. The form and content of the best value performance plan are prescribed in section 6 of the Act and statutory guidance issued by the Government.

As TfL's auditor, we are required under section 7 of the Act to carry out an audit of the best value performance plan, to certify that we have done so, and:

- to report whether we believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Act and statutory guidance and, where appropriate, recommending how the plan should be amended so as to accord with statutory requirements;

- to recommend:

  - where appropriate, procedures to be followed in relation to the plan;

  - whether the Audit Commission should carry out a best value inspection of TfL under section 10 of the Local Government Act 1999;

  - whether the Secretary of State should give a direction under section 15 of the Local Government Act 1999.

Opinion

Basis of this opinion

For the purpose of forming our opinion whether the plan was prepared and published in accordance with the legislation and with regard to statutory guidance, we conducted our audit in accordance with the Code. In carrying out our audit work, we also had regard to supplementary guidance issued by the Audit Commission.

We planned and performed our work so as to obtain all the information and explanations, which we considered necessary in order to provide an opinion on whether the plan has been prepared and published in accordance with statutory requirements.

In giving our opinion we are not required to form a view on the completeness or accuracy of the information or the realism and achievability of the assessments published by TfL. Our work therefore comprised a review and assessment of the plan and, where appropriate, examination on a test basis of relevant evidence, sufficient to satisfy ourselves that the plan includes those matters prescribed in legislation and statutory guidance and that the arrangements for publishing the plan complied with the requirements of the legislation and statutory guidance.

Unqualified opinion

In our opinion, TfL has prepared and published its best value performance plan in all significant respects in accordance with section 6 of the Local Government Act 1999 and statutory guidance issued by the Government.

KPMG LLP
Chartered Accountants
London

2006

TRANSPORT FOR LONDON

AUDIT COMMITTEE

SUBJECT: **UPDATE OF AUDIT COMMISSION ISSUES**

MEETING DATE: **2 NOVEMBER 2006**

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1.   Introduction

1.1   This paper provides an update to the Audit Committee on the audit and assessments of TfL which are carried out by the Audit Commission.

2.   Background

2.1   The Audit Commission published its Initial Performance Assessment (IPA) report on TfL in November 2004 when TfL was awarded an overall assessment of 'Excellent'.   IPA is the GLA equivalent of Comprehensive Performance Assessment (CPA) of local authorities.

2.2   In order to maintain focus between periodic CPAs, the Audit Commission undertake three annual assessments of single tier and county councils – a Direction of Travel, Use of Resources assessment and an Annual Service Assessment. The latter does not apply to TfL.

2.3   The Audit Commission's aim is to maintain consistency with the national CPA type methodologies that are applicable to TfL though these have been tailored to individual GLA Group members recognising their individuality.

3.   Initial Performance Assessment

3.1   The Audit Commission maintain that any future complete re-assessment of TfL will be under the national arrangements for completing periodic re-assessment of local authorities through CPA. The Audit Commission have indicated that a complete re-assessment of TfL remains 2008 and have agreed to engage with the GLA Group on the exact timing and methodology to be applied.

4.   Direction of Travel

4.1.   Direction of Travel is an annual assessment by the Audit Commission which seeks to demonstrate how well a local authority is complying with its duty to make arrangements to secure continuous improvement.

4.2.   The Audit Commission carried out a form of 'Direction of Travel' assessment of TfL in 2005 which was in the form of a desk-top exercise based on TfL's improvement plan arising out of the IPA assessment.

4.3.   For 2006, although still a desktop exercise, the Audit Commission intend for the Direction of Travel assessment to be more thorough with their findings being reported in the Annual Audit and Inspection Letter.   The Audit Commission's findings will be informed by the use of the key lines of enquiry (KLOE):

- What evidence is there of TfL improving outcomes?

- How much progress is being made to implement improvement plans to sustain future improvement?

TfL facilitated the assessment process by completing a short self-assessment, and provided documentary evidence to support such as improvement plans and performance reports.

The outcome of the Audit Commission assessment is non-scored judgement which will be reported in the Annual Audit and Inspection letter.

5.   Use of Resources

5.1   The Use of Resources assessment is carried out by KPMG on behalf of the Audit Commission and looks at how well TfL manages its finances and delivers value for money.

5.2   The assessment comprises five themes – financial reporting, financial management, financial standing, internal control and value for money, and relates closely to the Code of Audit Practice, under which the annual audit is carried out.

5.3   TfL completed a detailed self-assessment through the application of a set of KLOE. Evidence is provided to support the processes and outcomes being reported in the self-assessment. The KLOE were originally written to reflect the roles and responsibilities of a local authority and were the subject of discussion between the Audit Commission and the GLA Group. The KLOE were subsequently tailored to take account of TfL's unique function and governance arrangements.

5.4   An outcome of the assessment which is the subject of a formal moderation process, includes an overall scored judgement, and a score for each of the five themes. The score is one of four levels:

- Performing strongly – score 4
- Performing well – score 3
- Adequate performance – score 2
- Inadequate performance – score 1

5.5   We expect the scored assessment to be reported in a letter from TfL's Relationship Manager at the Audit Commission by 31 December 2006. This will be reported to the next meeting of the Audit Committee in January 2007.

6.   Audit of the Best Value Performance Plan (BVPP)

6.1   TfL is required, in accordance with the Local Government Act 1999 to publish a Best Value Performance Plan (BVPP) by 30 June each year. Detailed guidance for the requirements of the BVPP is contained within government circulars published by the then Office of the Deputy Prime Minister (now the Department for Communities and Local Government).

6.2   The current circular 05/2006 which sets out TfL's statutory obligations is 05/2006 published April 2006. The required content of the BVPP is:

- Out-turn performance over the past year on all Best Value Performance Indicators (BVPIs)
- Targets for the current year for all BVPIs

- A brief statement on contracts certifying that all contracts awarded during the past year which involve a transfer of staff comply, where applicable, with the requirements in the Code of Practice on Workforce Matters in Local Authority Service Contracts.

6.3   The BVPP is subject to audit. For the audit of the 2006 BVPP, the Audit Commission has introduced a new approach. In addition to auditing the published BVPP and associated performance indicators as in previous years, the process included for a detailed review of:

- The management arrangements for data quality, and

- A number of specified BVPIs.

6.4   The outcome of the 2006 audit carried out by KPMG on behalf of the Audit Commission is reported in detail as a separate agenda item.

7.   Recommendation

The Committee is asked to NOTE the update.

TRANSPORT FOR LONDON

STAFF SUMMARY

AUDIT COMMITTEE MEETING

SUBJECT: **UPDATE ON CRITICAL ACCOUNTING POLICIES**

MEETING DATE: **2 NOVEMBER 2006**

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1. PURPOSE

1.1 To update the Audit Committee on the Group's critical accounting policies to be applied in deriving the form and content of TfL's Statement of Accounts for the year ending 31 March 2007.

1.2 This update reflects the impacts of any issues arising during the preparation of the Statement of Accounts for the year ended 31 March 2006, any changes to the Code of Practice on Local Authority Accounting published by CIPFA ("the SORP"), and any other changes to UK accounting and reporting standards which may have an impact on TfL's Statement of Accounts and Annual Report for the year ending 31 March 2007.

2. BACKGROUND

2.1 TfL's Statement of Accounts are prepared in accordance with the provisions of the Audit Commission Act 1998 and the Accounts and Audit Regulations 2006 ("the Regulations"). The 2006 Regulations supersede the 2003 Regulations, but the changes have no impact on the form and content of the Statement, or the timetable for preparation and publication. The form and content followed in preparing the Statement are as prescribed in the Regulations and by the SORP. The accounting policies followed are also substantially as prescribed by the SORP.

2.2 The SORP is updated annually by the CIPFA/LASAAC Joint Committee, a standing committee of CIPFA and LASAAC (Local Authority (Scotland) Accounts Advisory Committee). In deriving the SORP the Joint Committee follows the Accounting Standards Board's Code of Practice for bodies recognised for issuing SORPs.

2.3 A review of the Group's critical accounting policies took place in 2004 and has since been updated annually. This paper deals with the critical accounting policies as they relate to the accounts for the year ending 31 March 2007.

2.4   Particular areas that required careful consideration last year, and will do so again this year, are set out below:

- Balance sheet recognition – confirming that the accounting treatment of major new contracts, or variations to existing contracts, entered into during the year is appropriate and, where contracts for services are involved, that the charge to revenue account properly reflects the value of services delivered in the year

- Fixed asset lives – ensuring where there has been work done on fixed assets under the Investment Programme that any extension of asset life as a consequence of that work is identified. In addition, consideration will need to be given to ensure all material retirements of assets or parts of assets as a consequence of the Investment Programme are identified and appropriately accounted for.

3.   KEY FEATURES OF THE STATEMENT OF ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2006

3.1   A paper was prepared as Agenda Item 5.1 to the open agenda of the 15 June 2006 Audit Committee. The paper presented the Statement of Accounts for the year ended 31 March 2006. It also provided an explanation of key features of the accounts and details of where the accounting policies or their application had changed since last year's critical accounting policies review.

3.2   Section 3 of this paper summarises some of these key features, and includes more detail on other areas. It also sets out some areas where further work on the accounting policies or their application is considered beneficial following the experience of preparing the 2005/06 Statement of Accounts.

2005 SORP

3.3   The 2005 SORP contained very few changes from that for 2004, and none of the changes made had any impact on the form or content of the accounts of TfL.

Borrowings

3.4   An accounting policy was introduced for the first time in the 2004/05 Statement of Accounts, in line with FRS 4, for long term borrowings. This policy incorporates a requirement to make a minimum revenue provision (MRP) for the repayment of outstanding debt determinable under the Local Government Act 2003. The 2005/06 Statement of Accounts was the first in which a figure other than nil was recorded. An amount of £3.2 million was charged to the revenue account and credited to the capital financing account.

Allocation of Prudential Borrowings

3.5 The amount borrowed under the prudential borrowing programme was allocated, on a cash spent basis, in the 2005/06 Statement of Accounts to assets in the Corporation, London Underground Limited, London Bus Services Limited and Docklands Light Railway Limited deemed to have been purchased with it.

3.6 Work is currently underway on a long-term financial model for the Group which will include projected balance sheets and reserves for the duration of the PPP contracts. This will assist in the discussions on whether it is correct to restrict the allocation to a strictly cash spent basis rather than an accrued value of work done basis. The model will also allow the tax impact on the subsidiaries of the various accounting options to be assessed. It is anticipated that the model will be completed early in the New Year, and any proposed changes in accounting policy will be brought back to the Audit Committee in advance of the year end.

Pensions

3.7 The accounting policy for pensions is in line with FRS 17: Retirement Benefits. The key financial assumptions and impacts of the policy for the Statement of Accounts to 31 March 2006 were set out in the Audit Committee paper of 15 June 2006.

3.8 In preparing the FRS 17 valuation for the employer Watson Wyatt made various demographic assumptions with regards the likelihood of events (e.g. death rates, retirement, leaving service rates etc.). Under FRS 17, the assumptions used should lead to the TfL's best estimate of future cash flows. In their report for the 2005/06 accounts, Watson Wyatt recommended retaining in the FRS 17 valuation the demographic assumptions used for the triennial Actuarial Valuation in 2003.

3.9 The next triennial Actuarial Valuation at 31 March 2006 is underway and draft results are now available. This valuation is based on updated mortality tables. Due to timing, the results of the triennial valuation were not available as the basis for the FRS 17 valuation for the 2005/06 Statement of Accounts. However, the results of the valuation will be reflected in the Statement of Accounts for 2006/07 once the assumptions have been agreed.

Accounting for Earmarked Reserves

3.10 One key area during the course of the preparation of the Statement of Accounts for the year ended 31 March 2006 that again required considerable subjectivity was that of determining the amount of earmarked reserves.

3.11 The policy and justification for classifying reserves as earmarked is essentially aimed at avoiding leaving funds in the General Fund, over

which there are existing commitments or obligations. This avoids overstating the amounts available for other general uses; this is typically the interpretation of balances on the General Fund.

3.12   The policy for earmarked reserves was refined for the year ended 31 March 2005, and this revised policy was applied on a consistent basis for the year ended 31 March 2006.

3.13   The start point for the level of earmarked reserves in the Statement of Accounts is the balanced Business Plan, which includes the establishment and release of such reserves over the plan period. The level of earmarked reserves at 31 March 2006 assumed in the Business Plan was adjusted to take account of specific carry forward items, and also to set aside reserves to finance certain capital projects which were not included in the Business Plan but had been committed to by the Board. For the year ended 31 March 2006, an additional amount of £128 million was set aside in respect of the committed expenditure for the East London Line extension project which was not in the Business Plan.

3.14   The application of this policy for the derivation of earmarked reserves remains under review. The Audit Committee will be informed of any proposed changes to the policy.

4.   DEVELOPMENTS IN UK ACCOUNTING STANDARDS AND THE 2006 SORP

SORP

4.1   The updated SORP adopted in 2006 ("2006 SORP") reflects the new UK Financial Reporting Standards and Urgent Issues Task Force issues (UITFs) issued prior to 30 September 2005.

4.2   The 2006 SORP removes the requirement to make a capital financing charge (a notional interest charge on the net book value of fixed assets, representing a charge for the use of capital assets) in the accounts of the Corporation. The main change is however to the format of the financial statements. The Revenue Account for both the Corporation and the Group will be replaced with an Income and Expenditure Account and a Statement of Total Recognised Gains and Losses. This change in format will align the presentation of the accounts much more closely with UK GAAP.

4.3   The main consequence of this presentational change is that the reported surplus or deficit on the face of the Income and Expenditure Account will be dramatically different to that which would have been reported on the face of the Revenue Account. For the year ended 31 March 2006 a substantial surplus would have been reported as the transfer to earmarked reserves of £226 million which was shown on the Revenue Account would not appear on the face of the Income and Expenditure Account. This will require very careful communication and

Group Finance will work closely with Group Communications on this issue.

4.4   In addition there is a requirement for a new statement, namely the Statement of Movement on the General Fund Balance. This statement reconciles the Income and Expenditure Account surplus or deficit with the movement in the General Fund.

4.5   In respect of the new UK Financial Reporting Standards and UITF's issued up to 30 September 2005 only FRS 25 "Financial Instruments: Disclosure and presentation" and FRS 26 "Financial Instruments: Measurement" are relevant to TfL. The 2005 SORP does not require local authorities to adopt FRS 25 and FRS 26, except for the presentation requirements of FRS 25. The SORP therefore continues to reflect the requirements of FRS 4 and FRS 13.

4.6   The paper dated 23 November 2005 to the Audit Committee indicated that the requirements of FRS 25 and FRS 26 will be reflected in the Group's accounts for the year ending 31 March 2007. Work is currently underway to enable this voluntary adoption of the two standards.

4.7   The application of FRS 25 and FRS 26 and the changes in format of the accounts will require a restatement of prior year comparatives in the accounts for the year ending 31 March 2007. It is intended that extracts from proforma accounts including prior year figures restated for the 2006 SORP, but excluding figures for the current year, should be presented to the Audit Committee for their consideration on 24 January 2007. The impact on TfL's accounts of the application of FRS 25 and FRS 26 and the proposed new disclosure will be presented to the Audit Committee on 14 March 2007, again excluding current year figures.

Further UK Accounting Standards developments

4.8   Since 30 September 2005 two UK Accounting Standards have been issued. These are:

- FRS 28:   Corresponding amounts
- FRS 29:   Financial Instruments: Disclosure

4.9   FRS 28 concerns the comparative figures shown in financial statements and largely replicates the legal requirements on corresponding amounts that previously existed. FRS 28 is expected to be included in the 2007 SORP but is unlikely to have any significant effect on TfL.

4.10   FRS 29 replaces the disclosure requirements of FRS 25 'Financial Instruments: Disclosure and Presentation' and is mandatory for entities applying FRS 25 for accounting periods commencing on or after 1 January 2007. Earlier adoption is allowed to enable entities to move directly to the new requirements on first applying FRS 26, avoiding the

need to make two changes in quick succession. The new standard bases its risk disclosure requirements on the entity's management's internal risk monitoring information, so reducing the burden for additional data collection. TfL will consider early adoption of FRS 29 and will report recommendations to the Audit Committee in March.

International Financial Reporting Standards

4.11   The Transparency Directive requires EU companies with listed equity or debt to prepare annual accounts under International Financial Reporting Standards (IFRS).   Following TfL's first bond issue in December 2004, the question was raised as to whether TfL would be required to prepare such accounts.   This presented a number of practical difficulties, including the lack of guidance on how IFRS would apply to an entity such as TfL preparing accounts under the SORP.

4.12   Although TfL is treated as a local authority for certain purposes, including financial reporting, it was not necessarily the case that it would be treated as such for the purposes of the Prospectus Directive. TfL therefore sought confirmation from the UK Listing Authority that TfL would be considered a local authority under the Prospectus Directive, and hence that the Transparency Directive would exempt TfL from the need to produce annual accounts under IFRS.   This confirmation has been received.

4.13   However the Accounting Standards Board is now considering whether publicly accountable companies should be required to apply full IFRS. The definition of "publicly accountable" is such that it is likely that TfL's subsidiaries would be included.   TfL has responded to the initial consultation, and has indicated that IFRS adoption is not an issue in principle, but in practice we would wish to see the SORP requirements changing in parallel.

4.14   As far as the SORP is concerned, CIPFA remains committed to following UK GAAP and only changing the SORP as new UK standards are issued.   The proposals for future application of IFRS, by the ASB or CIPFA, will be kept under review and TfL will continue to respond supportively. TfL will however highlight the practical difficulties that would arise if TfL's subsidiaries were required to adopt IFRS whilst the SORP was still based on UK GAAP.

5.   RECOMMENDATIONS

The Audit Committee is asked to NOTE the contents of this report.